



January 18, 2021

Memorandum

To: Oklahoma Incentive Evaluation Commission
From: Randall Bauer, PFM
RE: Draft 2021 Incentive Evaluation Criteria

The project team, in conjunction with the Commission's criteria for evaluation subcommittee (Cynthia Rogers and Mandy Fuller), has reviewed the incentives that are scheduled for evaluation and recommends the following draft criteria. For comparison, we have also included a table at the end with the criteria used for the 2017 evaluations of these incentives.

In reviewing the criteria for evaluation, it is useful to consider the legislative definition of a business incentive that is subject to evaluation. Oklahoma State Statutes, §62-7002 defines an incentives as "a tax credit, tax exemption, tax deduction, tax expenditure, rebate, grant, or loan that is intended to encourage businesses to locate, expand, invest, or remain in Oklahoma, or to hire or retain employees in Oklahoma." In other words, an incentive is focused on business location, expansion and investment or hiring and retaining employees in Oklahoma. As a result, it is not surprising that most criteria are focused on those outcomes.

1. **Quality Jobs Program**

Goal:

Accelerate job creation in Oklahoma and support establishments in basic industries with potential for significant development in Oklahoma.

Draft Criteria:

- Change in jobs associated with the cash rebates;
- Change in payroll associated with the cash rebates;
- Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits;
- Change in capital investment associated with the cash rebates;
- Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole;
- Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole;
- Number of recipients receiving other state business incentives during the rebate periods;
- State return on investment.

2. **21st Century Quality Jobs Program**

Goal:

Accelerate job creation in Oklahoma and attract growth industries and sectors to Oklahoma.

Draft Criteria:

- Change in jobs associated with the cash rebates;
- Change in payroll associated with the cash rebates;



- Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits;
- Change in capital investment associated with the cash rebates;
- Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole;
- Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole;
- State return on investment.

3. Small Employer Quality Jobs Program

Goal:

Accelerate job creation in Oklahoma.

Draft Criteria:

- Change in jobs associated with the cash rebates;
- Change in payroll associated with the cash rebates;
- Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits;
- Change in jobs/payroll associated with the cash rebates versus state growth rates as a whole;
- Change in jobs/payroll in the qualifying industries versus state industries as a whole;
- State return on investment.

4. High Impact Quality Jobs Program

Goal:

Accelerate job creation in Oklahoma.

Draft Criteria:

- Change in jobs associated with the cash rebates;
- Change in payroll associated with the cash rebates;
- Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits;
- Change in capital investment associated with the cash rebates;
- Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole;
- Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole;
- State return on investment.

5. Capital Gains Deduction

Goal:

Encourage capital investment by companies located in Oklahoma (the exemption requires companies to have their primary headquarters located in Oklahoma uninterrupted for at least a three-year period prior to the transaction).

Draft Criteria:

- Number of qualified realized capital gains;
- Employment/capital/payroll associated with realized capital gains;
- Change in realized capital gains before/after the deduction;



- State return on investment.

6. **Home Office Tax Credit**

Goal:

Attract insurance industry jobs to Oklahoma.

Draft Criteria:

- Change in employment for eligible insurers before/after credit;
- Distribution within the categories of number of full-time employees claimed;
- Change in payroll for eligible insurers before/after credit;
- Average wage for eligible insurers before/after credit;
- Change in employment for industry versus other states without credit;
- State return on investment.

7. **Ethanol Fuel Retailer Tax Credit**

Goal:

This credit (\$0.016 per gallon of ethanol-blended fuel if the cost savings is passed along to the consumer) is meant to increase sale of ethanol blended gasoline in Oklahoma.

Draft Criteria:

- Incentive usage over time (number and value of claims);
- Change in ethanol-blended fuel consumption versus non-blended fuel over time in Oklahoma and relative to other states;
- Change in ethanol-blended fuel as a share of total fuel consumed over time in Oklahoma and relative to other states;
- Change in number/share of fueling stations selling ethanol-blended fuel over time in Oklahoma and relative to other states;
- State return on investment.

8. **Credit for Investments in Clean-Burning Fuel or Electric Vehicle Property**

Goal:

Increase the number of clean-burning fuel and electric vehicles in use in Oklahoma.

Draft Criteria:

- Incentive usage over time (number and value of claims);
- Change in total clean burning fuel and electric vehicles over time in Oklahoma and relative to other states;
- Change in Oklahoma's share of total clean burning fuel and electric vehicles over time;
- Change in number of electric vehicle charging stations over time in Oklahoma and relative to other states;
- State return on investment.



9. Coal Tax Credits

Goal:

Assist the production and/or consumption of Oklahoma coal.

Draft Criteria:

- Incentive usage over time (number and value of claims);
 - Change in coal production over time in Oklahoma and relative to other coal-producing states;
 - Change in Oklahoma's share of coal production over time;
 - Change in number of coal producers/sites over time in Oklahoma and relative to other states;
 - Change in number of consumers of Oklahoma coal over time;
 - State return on investment.
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The following three incentives were sunset on July 1, 2017. Because of this, there is no recent financial or economic impact data that can be relied upon for purposes of an evaluation. As a result, the Commission may exempt them from evaluation.

10. Production Enhancement Rebate

Goal:

Encourage enhancement projects to increase well production (exempts from gross production tax for 28 months the production resulting from the re-establishment of an inactive well).

Draft Criteria:

- Incentive usage over time (number and value of claims);
- Production associated with incentive claims;
- Change in number of oil and gas producers/sites over time in Oklahoma and relative to other states (before/after credit);
- State return on investment.

11. Re-Established Production Incentive

Goal:

Encourage the re-establishment of production at currently inactive oil and/or gas wells (exempts from gross production tax for 28 months the production resulting from the re-establishment of an inactive well).

Draft Criteria:

- Incentive usage over time (number and value of claims);
- Production associated with incentive claims;
- Change in number of oil and gas producers/sites over time in Oklahoma and relative to other states (before/after credit);
- State return on investment.



12. Economically At-Risk Lease Exemption

Goals:

Stimulate Oklahoma's energy industry; help Oklahoma compete for investment dollars with other states (qualified wells received reductions on gross production taxes of between 3/4ths and 6/7ths).

Draft Criteria:

- Incentive usage over time (number and value of claims);
- Production associated with incentive claims;
- Change in number of oil and gas producers/sites over time in Oklahoma and relative to other states (before/after credit);
- State return on investment.

**Incentive Evaluation Commission
2017 and 2021 Criteria**

Incentive	Goal	2017 Criteria	2021 Criteria (Proposed)
Quality Jobs Program	Accelerate job creation in Oklahoma and support establishments in basic industries with potential for significant development in Oklahoma	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in capital investment associated with the cash rebates; - "But-for" test – change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment. 	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in capital investment associated with the cash rebates; - Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - Number of recipients receiving other state business incentives during the rebate periods - State return on investment
21st Century Quality Jobs Program	Accelerate job creation in Oklahoma and attract growth industries and sectors to Oklahoma	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in capital investment associated with the cash rebates; - Number/amount of incentives by industry; - But-for-test – change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment 	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in capital investment associated with the cash rebates; - Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment.
Small Employer Quality Jobs Program	Accelerate job creation in Oklahoma	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Change in capital investment associated with the cash rebates; - But-for-test – change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment. 	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in jobs/payroll associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll in the qualifying industries versus state industries as a whole; - State return on investment
High Impact Quality Jobs Program	Accelerate job creation in Oklahoma	<ul style="list-style-type: none"> - Change in jobs associated with the quarterly payments; - Change in payroll associated with the quarterly payments; - Change in capital investment associated with the quarterly payments; - But-for-test – change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment. 	<ul style="list-style-type: none"> - Change in jobs associated with the cash rebates; - Change in payroll associated with the cash rebates; - Ability of program administrative processes to establish the factual basis for claims related to hours, wages, and benefits; - Change in capital investment associated with the cash rebates; - Change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole; - Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole; - State return on investment
Capital Gains Deduction	Encourage capital investment by companies located in Oklahoma (the exemption requires companies to have their primary headquarters located in Oklahoma uninterrupted for at least a three-year period prior to the transaction)	<ul style="list-style-type: none"> - Number of qualified realized capital gains; - Employment/capital/payroll associated with realized capital gains; - Change in realized capital gains before/after the deduction; - State return on investment. 	<ul style="list-style-type: none"> - Number of qualified realized capital gains; - Employment/capital/payroll associated with realized capital gains; - Change in realized capital gains before/after the deduction; - State return on investment.

**Incentive Evaluation Commission
2017 and 2021 Criteria**

Incentive	Goal	2017 Criteria	2021 Criteria (Proposed)
Home Office Tax Credit	Attract insurance industry jobs to Oklahoma	<ul style="list-style-type: none"> - Change in employment for eligible insurers before/after credit; - Distribution within the categories of number of full-time employees claimed; - Change in payroll for eligible insurers before/after credit; - Average wage for eligible insurers before/after credit; - Change in employment for industry versus other states without credit; - <u>State return on investment.</u> 	<ul style="list-style-type: none"> - Change in employment for eligible insurers before/after credit; - Distribution within the categories of number of full-time employees claimed; - Change in payroll for eligible insurers before/after credit; - Average wage for eligible insurers before/after credit; - Change in employment for industry versus other states without credit; - <u>State return on investment.</u>
Ethanol Fuel Retailer Tax Credit	This credit (\$0.016 per gallon of ethanol-blended fuel if the cost savings is passed along to the consumer) is meant to increase sale of ethanol blended gasoline in Oklahoma	<ul style="list-style-type: none"> - Change in production and consumption of blended versus non-blended fuel; - Change in production and consumption of blended versus non-blended fuel relative to other states. 	<ul style="list-style-type: none"> - Incentive usage over time (number and value of claims); - Change in ethanol-blended fuel consumption versus non-blended fuel over time in Oklahoma and relative to other states; - Change in ethanol-blended fuel as a share of total fuel consumed over time in Oklahoma and relative to other states; - Change in number/share of fueling stations selling ethanol-blended fuel over time in Oklahoma and relative to other states; - <u>State return on investment.</u>
Credit for Investments in Clean-Burning Fuel or Electric Vehicle Property	Increase the number of clean-burning fuel and electric vehicles in use in Oklahoma	<ul style="list-style-type: none"> - Number of qualified credits by category; - Change in number of qualified vehicles versus prior to credit; - Change in clean burning fuel vehicles in Oklahoma versus other states. 	<ul style="list-style-type: none"> - Incentive usage over time (number and value of claims); - Change in total clean burning fuel and electric vehicles over time in Oklahoma and relative to other states; - Change in Oklahoma's share of total clean burning fuel and electric vehicles over time; - Change in number of electric vehicle charging stations over time in Oklahoma and relative to other states; - <u>State return on investment.</u>
Coal Tax Credits	Assist the production and/or consumption of Oklahoma coal	<ul style="list-style-type: none"> - Change in production before/after the credit; - Change in jobs associated with the credit; - Change in payroll associated with the credit; - Change in capital investment associated with the credit; - Change in jobs/payroll/capital associated with the credit versus state growth rates as a whole; - Return on investment – economic activity versus financial net cost. 	<ul style="list-style-type: none"> - Incentive usage over time (number and value of claims); - Change in coal production over time in Oklahoma and relative to other coal-producing states; - Change in Oklahoma's share of coal production over time; - Change in number of coal producers/sites over time in Oklahoma and relative to other states; - Change in number of consumers of Oklahoma coal over time; - <u>State return on investment.</u>
Production Enhancement Rebate	Encourage enhancement projects to increase well production (exempts from gross production tax for 28 months the production resulting from the re-establishment of an inactive well)	<ul style="list-style-type: none"> - Change in capital investment versus non-qualified within the industry; - Change in oil/gas production versus non-qualified within the industry; - Change in jobs versus non-qualified within the industry; - <u>Change in revenue associated with leases.</u> 	<ul style="list-style-type: none"> - Incentive usage over time (number and value of claims); - Production associated with incentive claims; - Change in number of oil and gas producers/sites over time in Oklahoma and relative to other states (before/after credit); - State return on investment.
Re-Established Production Incentive	Encourage the re-establishment of production at currently inactive oil and/or gas wells (exempts from gross production tax for 28 months the production resulting from the re-establishment of an inactive well)	<ul style="list-style-type: none"> - Price model for fiscal impact – cost benefit analysis at different price points; - Change in production for qualified wells; - Change in value of leases. 	
Economically At-Risk Lease Exemption (Deduction)	Stimulate Oklahoma's energy industry; help Oklahoma compete for investment dollars with other states (qualified wells received reductions on gross production taxes of between 3/4ths and 6/7ths)	<ul style="list-style-type: none"> - Cost benefit analysis at different price points; - Change in production for qualified wells; - Change in value of leases. 	

Note: Grey cells represent incentives recommended for exemption in 2021